Examination: 11052 „Financial Accounting" **Summer Term 2009**

Examiner: Prof. Dr. Barbara Schöndube-Pirchegger

Examination questions: 5

Duration : 60 minutes

Name: _____ **Matriculation number:** _____

The following aids can be used: a calculator in accordance with the instructions given by the Board of Examiners and a dictionary.

Hint: A maximum of 60 points can be reached from solving the 5 assignments below. Use the space /tables provided to enter your answers.

Assignment 1 (20 points)

Set out below in exhibit 1) is an extract from the general ledger of Hover Company on 20 March 2009. The ledger accounts provide information on transactions (1) to (11) which have already been recorded and posted to the general ledger. All amounts are given in '000s.

Required:

Use the information given in *exhibit 1)* to identify all transactions recorded. For example, from inspecting the ledger accounts given we see that transaction 1) was recorded by debiting the cash ledger account by 2 and crediting shareholders' equity by the same amount. From this we conclude, that:

    (1) Shareholders invested 2 in cash in the company.

Use the space provided below to fill in your answers.

Answers:

(1)   Shareholders invested 2 in cash in the company._____

(2)_____

_____

(3)_____

_____

(4)_____

_____

(5)_____

_____

(6)_____

_____

(7)_____

_____

(8)_____

_____

(9)_____

_____

(10)_____

_____

(11)_____

_____

Exhibit 1: Extract from general ledger of Hover Company on 20 March 2009 (amounts in '000s)

Assets

Cash

Dr.			Cr.	
BB	3	(3)	2	
(1)	2	(4)	3	
(2)	6	(8)	1	
(7)	4	(9)	4	
(10)	5			

Accounts receivable

Dr.			Cr.	
BB	5	(7)	4	
(10)	9			

Inventories

Dr.			Cr.	
BB	1	(6)	2	
(3)	9	(11)	8	

Prepaid rent

Dr.			Cr.	
(4)	3			

Property and Equipment

Dr.			Cr.	
BB	3			
(5)	6			

Investment in Deutsche Bank

Dr.			Cr.	
(8)	1			

Equities

Accounts payable

Dr.			Cr.	
(6)	2	(3)	7	
(9)	4			

Bank loan

Dr.			Cr.	
		(2)	6	

Shareholders' equity

Dr.			Cr.	
		BB	8	
		(1)	2	
		(5)	6	

Income statement accounts

Cost of goods sold

Dr.			Cr.	
(11)	8			

Sales revenue

Dr.			Cr.	
		(10)	14	

BB - beginning balance

Assignment 2 (*10 points*)

MetroModa manufactures and sells 'smart casual' clothes. A summary of the company's ledger account, Cash, is presented below.

Cash (amounts in 000)			
Dr.			**Cr.**
Balance, 1/1/ x1	110	Payments to suppliers	487
Increase in bank loans	53	Dividends paid	50
Sale of property	7	Salaries paid	116
Cash collected from credit sales	879	Purchase of plant and equipment	240
Increase in long-term loans	130	Payments for rent	59
		Interest paid	59
		Income tax paid	46
Balance, 31/12/ x1	122		

Required:

Prepare a cash flow statement for MetroModa for the year x1, showing separately cash flows from operating, investing and financing activities. Classify interest payments and tax payments as operating outflows.

MetroModa SA
Cash flow statement for year x1

Operating activities

Investing activities

Financing activities

Net increase/ decrease in cash

Assignment 3 *(10 points)*
At the beginning of year x4, Urban Furniture Company acquires a new laminating machine with an expected useful life of eight years. Urban Furniture receives a 5 % discount on the machine's list price of 30,000 €. The cost for transporting the machine to its destination amounts to 1000 €. The cost incurred on its installation and initial tests is 2,500 €. The expected residual value is minimal and can be ignored.

Required
   a. What is the cost at which Urban Furniture should capitalise the laminating machine in its balance sheet?

   Cost to be capitalised: _____

   b. Calculate the depreciation charge on the machine and its end-year carrying value for the years specified in the table below under the following methods of depreciation:

   i. the straight-line (SL) method.
   ii. the declining-balance (DB) method. (The DB rate is assumed to be 200 % of the SL rate.)
   iii. the units-of-production (UoP) method. (Forecast usage in each of years 1 to 4 is: 3,600; 2,100; 5,700; 4,200 machine hours. After that the usage is estimated to remain constant at 3,600 machine hours.)
   iv. the sum-of-years' digits (SoYD) method. (Please round to whole numbers.)

		Depreciation	End-year carrying value
i)	Year 1 (x4)		
ii)	Year 2 (x5)		
iii)	Year 2 (x5)		
iv)	Year 1 (x4)		

Assignment 4 *(10 points)*
The table below shows Mayer company's purchases of a certain type of raw material in year x7.

	Quantity (kilograms)	Price per kilogram
Balance at 31/12/x6:	100	€ 5.50
Purchases during x7:		
February	200	€ 6.80
April	500	€ 6.90
August	400	€ 7.30
November	200	€ 6.40

Mayer used 150 kilograms of this material in March, 300 in May, and 600 kilograms were used in October.

Required:

a. Compute the cost of raw materials used and the value of the ending materials inventory at year-end, under FIFO and LIFO cost-flow assumptions. Assume the company uses a perpetual system to keep track of inventory quantities and values.
b. Assume both methods are permitted for tax purposes. Would Mayer's income tax liability for x7 be greater or less if it used LIFO rather than FIFO?

Use the space provided below to fill in your results.

a) perpetual system	FIFO	LIFO
Cost of materials used (€)		
Ending inventory (€)		

b)   Higher or lower tax liability under LIFO? _____

Assignment 5 (*10 points*)

Helius Software uses the allowance method for recording its bad debt expense. It has credit terms of 'net 30 days'. The ledger account 'Accounts receivable' and its contra account 'Allowance for bad debts' given below contain the respective beginning balances at the start of year x8 (all amounts in € 000). From this we learn that the accounts receivable net amount (i.e. net of the allowance for bad debts) at the start of year x8 is 285 (=310-25).

Accounts receivable

	Dr.		Cr.
Beginning bal.	310		

Allowance for bad debts (CA)

	Dr.		Cr.
		Beginning bal.	25

During x8, the company makes credit sales of € 4,520 and collects €3,980 of accounts receivable. It writes off € 17 of bad debts (all amounts in € 000). At the end of x8, Helius carries out an ageing analysis of receivables. The results are as follows:

	Total	Current	Numbers of days past due	
			1-60	>60
Percentage of x8 receivables	100	70	20	10
Percentage expected to be uncollectible		0.2	5	30

Required:

a) Calculate the gross accounts receivable at end-x8 by determining the ending balance in the 'accounts receivable' account given above. Enter the amounts debited and credited to this account as specified in the text.

b) Compute the allowance for bad debts at end-x8. Use the table below to fill in your results.

	Current	1-60 days past due	>60 days past due	**Total**
x7 accounts receivable according to age				
Allowance required				